

COMMITTEE ON LEGISLATIVE RESEARCH
OVERSIGHT DIVISION

FISCAL NOTE

L.R. No.: 2092-01
Bill No.: HB 622
Subject: Taxation and Revenue - Income
Type: Original
Date: March 11, 2003

FISCAL SUMMARY

ESTIMATED NET EFFECT ON GENERAL REVENUE FUND			
FUND AFFECTED	FY 2004	FY 2005	FY 2006
General Revenue	\$2,627,968	\$2,627,968	\$2,627,968
Total Estimated Net Effect on General Revenue Fund	\$2,627,968	\$2,627,968	\$2,627,968

ESTIMATED NET EFFECT ON OTHER STATE FUNDS			
FUND AFFECTED	FY 2004	FY 2005	FY 2006
Total Estimated Net Effect on Other State Funds	\$0	\$0	\$0

Numbers within parentheses: () indicate costs or losses.
This fiscal note contains 5 pages.

ESTIMATED NET EFFECT ON FEDERAL FUNDS			
FUND AFFECTED	FY 2004	FY 2005	FY 2006
Total Estimated Net Effect on <u>All</u> Federal Funds	\$0	\$0	\$0

ESTIMATED NET EFFECT ON LOCAL FUNDS			
FUND AFFECTED	FY 2004	FY 2005	FY 2006
Local Government	\$0	\$0	\$0

FISCAL ANALYSIS

ASSUMPTION

Officials of the **Department of Revenue (DOR)** state this legislation will increase Total State Revenue by closing a provision that allows taxpayers to deduct railroad retirement benefits twice, and by mandating electronic payments for some businesses, therefore, increasing interest paid to the state.

Section 143.124.10 - Pension Exemption

This section clarifies that pension benefits must be included in federal adjusted gross income in order to deduct those benefits through the pension exemption. Currently taxpayers that have railroad retirement benefits can subtract their retirement benefits from their adjusted gross income on their Missouri income tax return and also deduct those benefits again through the pension exemption. This legislation will eliminate deducting the benefits twice.

Section 143.225.9 - Electronic Payments

This legislation allows the director to authorize electronic payments for businesses required to submit their withholding tax payments quarter-monthly (weekly). Electronic payments speed up the processing time and improve the state's cash flow and interest earnings.

Section 143.124.10 - Pension Exemption: DOR assumes no additional impact.

ASSUMPTION (continued)

Section 143.225.9 - Electronic Payments: DOR is currently set up to receive electronic payments. Therefore, there is no administrative impact to DOR.

Section 143.124.10: In a previous fiscal note filed in March 2000 (SB 992, LR 4415-01), Oversight estimated the revenue impact at \$1.6 million. Therefore, DOR assumes the revenue impact somewhere between \$1.6 to \$2 million due to inflation.

Section 143.225.9: If mandated electronic withholding tax quarter-monthly payments were implemented, the Cashiering Section estimates payments would be deposited into the bank two days sooner. The state would earn an additional \$1,011,478 in interest annually based on the following assumptions:

Withholding Quarter-Monthly:

Annual # W/H qtr-monthly due dates	48
# days processing	<u>x 3</u>
Total Days	144
FY02 W/H qtr-monthly collections	\$2,326,721,487
Deposit days	<u>/ 144</u>
Ave. daily bank deposit	\$ 16,157,788
Annual rate of return	x 3.13% (ave. FY02)
# days faster deposit	<u>x 2</u>
Additional Interest Eamed Annually	\$ 1,011,478

Officials of the **Office of Administration, Division of Budget and Planning (BAP)** did not respond to our fiscal note request. However in response to SB 992 from the 2000 session, BAP stated that currently taxpayers that have Railroad Retirement Benefits can subtract their retirement benefits from their adjusted gross income on their Missouri income tax return. These same taxpayers may currently also take the pension exemption on the Missouri income tax return. This proposal does not allow the pension exemption for Railroad Retirement Benefits, because they are already excluded from adjusted gross income. This would eliminate deducting the benefits twice.

According to Table 545 in the 1999 Statistical Abstract, Railroad Retirement Benefits are \$8 billion nationally. BAP staff assumed that 1.9% of this total is paid to Missourians. A 4.5% marginal tax rate was assumed.

ASSUMPTION (continued)

In Senate Bill 922, **Oversight** stated that according to the actuary section of the Railroad Retirement Board, there were approximately 315,100 railroad retirees nationally. Dividing \$8 billion by the 315,100 retirees yields an average pension of \$25,400 annually. **Oversight** assumes that 1.9% of the 315,100 retirees (5,987) are located in Missouri. The maximum amount of the pension exemption is \$6,000. **Oversight** has calculated the revenue impact of this proposal by multiplying the \$6,000 by 5,987 retirees and assuming a 4.5% marginal tax rate. This would yield a savings of \$1,616,490 annually by eliminating the ability to deduct Railroad Retirement Benefits twice.

Oversight assumes DOR could have a slight decrease in workload, however the decrease is not expected to be enough to show a cost savings. **Oversight** assumes the revenue impact for the pension exemption estimate would have grown only slightly and will show the revenue impact for this portion of the proposal as \$1.6 million, annually.

This proposal would result in an increase in Total State Revenues.

<u>FISCAL IMPACT - State Government</u>	FY 2004 (10 Mo.)	FY 2005	FY 2006
GENERAL REVENUE FUND			
<u>Savings - General Revenue</u>			
Reduction in pension exemptions	\$1,616,499	\$1,616,490	\$1,616,490
Electronic withholding payments	<u>\$1,011,478</u>	<u>\$1,011,478</u>	<u>\$1,011,478</u>
TOTAL ESTIMATED NET EFFECT ON GENERAL REVENUE FUND	<u>\$2,627,968</u>	<u>\$2,627,968</u>	<u>\$2,627,968</u>
 <u>FISCAL IMPACT - Local Government</u>	 FY 2004 (10 Mo.)	 FY 2005	 FY 2006
	<u>\$0</u>	<u>\$0</u>	<u>\$0</u>

FISCAL IMPACT - Small Business

Small businesses that file quarter-monthly withholding tax could be expected to file electronically as a result of this proposal.

DESCRIPTION

This proposal clarifies that the exemptions from income for any annuity, pension, or retirement allowance as defined in Section 143.124.1 apply to the extent included in federal adjusted gross income.

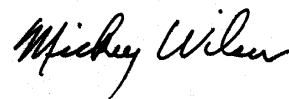
Also, this proposal allows the Director of Revenue to prescribe the use of an electronic funds payment system for quarter-monthly withholding tax remittance.

This legislation is not federally mandated, would not duplicate any other program and would not require additional capital improvements or rental space.

SOURCES OF INFORMATION

Department of Revenue

NOT RESPONDING:
Office of Administration
Division of Budget and Planning



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DIRECTOR
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